

Details of the SECURE 2.0 Act: Student Loan Matching



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On December 29, 2022, the SECURE 2.0 Act was included as part of a larger omnibus spending package, the Consolidated Appropriations Act, 2023. The legislation contains 92 provisions which are retirement plan related. Plan amendments made pursuant to SECURE 2.0 are to be made by the end of 2025 (2027 in the case of governmental plans) as long as the plan operates in accordance with such amendments as of the effective date of a bill requirement or amendment. It also extended SECURE 1.0 and CARES amendment deadlines to December 31, 2025.

Section 110 of the Secure 2.0 Act allows Student Loan Matching.

The IRS issued a Private Letter Ruling (PLR) to Abbott Laboratories in 2018 approving a proposed amendment to its 401(k) plan to allow a matching contribution based on student loan debt repayments rather than employee deferrals to the plan. That private letter ruling was only for the Abbott Laboratories plan, but it sparked interest from other employers who wanted the possibility of adding this to their own plans. Employers saw this as an opportunity to recruit, retain and encourage retirement savings for an employee population that may not have deferred into their company plan due to outstanding student loan debt. However, even though the interest was there, it was not possible to add those provisions to any other plan.

Secure 2.0 added a new provision allowing any employer to amend their plan to allow a match based on student debt repayments for higher education expenses. This is big news since prior to the SECURE 2.0 Act, companies were limited to only offering a match based on their employee's deferral contributions.

The regulation requires that eligibility, match rate, and vesting must be the same as the match on elective deferrals. The employee must annually certify that the loan payments have been made. Employers may rely on this self-certification.

It is our understanding that a plan can test separately those employees who receive matching contributions on student loan repayments from those who receive matching contributions on elective deferrals due to the possible issues with compliance testing. The amount of loan repayments made by the employee will count toward the annual limit on elective deferrals under Code Section 402(g) but not as a contribution for the limit on annual additions under Code Section 415(c). These provisions of the Act will make the inclusion of such a provision less administratively burdensome.

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What is considered a qualified student loan payment? Student loans taken out for the sole purpose of paying for a qualified higher education expense for the participant, spouse or dependents at the time that the loan was taken will qualify for the match. An eligible student would have to be enrolled at least part time (6 credits) in a program that will lead to a degree, certificate or other educational credential. The Secure 2.0 Act doesn't specify that graduation is required in order to be considered eligible for the student loan match, only that it be a qualified student loan payment. It may be up to your employer to make a decision on whether the participant can still benefit without completing a degree.

Qualified higher education expenses would include tuition, fees, books or other related items. Expenses for non-credit courses, sports, games, hobbies, room & board, insurance, medical expenses (including health fees) and transportation are not considered eligible expenses.

This is an optional provision that plan sponsors can implement in 401(k), 403(b), Governmental 457(b), and SIMPLE IRA plans for plan years beginning on and after January 1, 2024. The IRS will issue guidance and a model plan amendment for those plans wishing to adopt this provision. Further guidance will be needed as there are many unanswered questions on how to completely operate this type of program.



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